



hoosier lottery™

# Hoosier Lottery

Request for Expression of Interest

Responses Due: June 1, 2012

## **1. Request for Expression of Interest**

### **1.1. Overview**

In accordance with its duty to function as an entrepreneurial business enterprise, the State Lottery Commission of Indiana ("Commission" or "Lottery") has elected to enter into a process intended to select a private entity or consortium (the "Vendor") that will increase the Lottery's net revenues by providing a broad scope of equipment, products and services necessary for the Commission to operate lottery games (the "Integrated Services"). The Lottery has engaged Oliver Wyman as Transaction Advisor to support the process. The entity or consortium selected will enter into an Integrated Services Agreement with the Commission to provide a broad-scope of Integrated Services to assist in lottery operations. The purpose of this Request for Expression of Interest (RFEI) is to identify parties interested in serving as the Vendor ("Interested Party or Parties") and to solicit feedback from them to assist the Commission and its Transaction Advisor as they develop an Integrated Services Agreement. Subsequent to the RFEI process, the Commission will issue a request for information ("RFI") soliciting proposals to enter into an Integrated Services Agreement. Response to this RFEI is not a prerequisite to submitting a proposal in response to the RFI, however, it is highly encouraged.

Section 1 of this RFEI invites Interested Parties to express their interest by submitting certain preliminary information to the Commission. Section 2 provides introductory information about the Commission, including a description of the current lottery operation and financial performance, and highlights of this Integrated Services opportunity. Section 3 summarizes the RFEI submission requirements and procedures. Section 4 provides instructions for delivery and next steps.

**Interested Parties responding to this RFEI must do so no later than 4:00 PM Eastern Daylight Time on June 1, 2012. The Commission may determine at its sole discretion whether to accept any expressions of interest that are not received by the date and the time set forth in this paragraph. Interested Parties should be prepared to timely respond to subsequent communications. The Commission anticipates that proposals will be due on or about September 7, 2012 and that the Commission will enter into an Integrated Services Agreement with the successful proposer no later than November 1, 2012.**

## 1.2. Overview of the Process

Interested Parties are asked to submit the information described in Section 3.2 and an executed Non-Disclosure Agreement (NDA). A copy of the NDA is attached to this RFEI. A Multi-Jurisdictional Personal Disclosure Form also is attached. Interested Parties need not complete the Multi-Jurisdictional Personal Disclosure Form at this time, but will be required to do so if responding to the RFI later in the process.

Interested Parties will be provided instructions concerning next steps and the opportunity to conduct due diligence and provide feedback, which will include:

- Meetings with the Transaction Advisor during which the Transaction Advisor will provide an overview of the Integrated Services opportunity;
- Opportunity for Interested Parties to provide feedback concerning their views on how to best structure the Integrated Services transaction to maximize the value for the parties;
- Access to an on-line data room containing detailed information about the Lottery, its contracts with vendors, distributors, and other aspects of its business;
- An opportunity to meet with Lottery officials, and
- An opportunity to review a preliminary draft of the Integrated Services Agreement and related documents and provide comment concerning the terms and conditions proposed therein.

Following this process, an RFI will be issued to solicit binding proposals to enter into an Integrated Services Agreement.

The Commission reserves all rights to amend this RFEI and any subsequent RFI process for selecting a Vendor, including the right to terminate discussions with any or all Interested Parties at any time. In addition, the Commission reserves rights to waive defects, irregularities or informalities or accept or reject any part of any response at its discretion. The Commission may postpone the date on which responses are to be submitted or take any other action that it deems to be in its best interest. The Commission is not responsible for and will not pay for any costs associated with your submission.

## 2. Description of the Hoosier Lottery & Highlights of the Opportunity

### 2.1. Overview of the Lottery

The Lottery generated \$791 million of revenue and \$188 million of net income during FY 2011. The Lottery has enjoyed relatively consistent growth throughout its history; with a compound annual growth rate (“CAGR”) of 3.7% from 2001-2011, and a net income CAGR of 1.9% during the same period.

| Hoosier Lottery Historical Financials |            |            |            |            |            |              |
|---------------------------------------|------------|------------|------------|------------|------------|--------------|
|                                       | \$MM       | FY07       | FY08       | FY09       | FY10       | FY11         |
| 2007-2011 CAGR                        |            |            |            |            |            |              |
| <b>Operating Revenues</b>             |            |            |            |            |            |              |
| Instant Games                         | 525        | 539        | 485        | 474        | 519        | -0.3%        |
| Online Games                          | 264        | 284        | 248        | 266        | 272        | 0.8%         |
| <b>Total Operating Revenues</b>       | <b>789</b> | <b>823</b> | <b>733</b> | <b>740</b> | <b>791</b> | <b>0.1%</b>  |
| YoY Growth %                          | -3%        | 4%         | -11%       | 1%         | 7%         |              |
| <b>Operating Expenses</b>             |            |            |            |            |            |              |
| Prizes                                | 478        | 503        | 453        | 456        | 495        | 0.9%         |
| Retailer Commissions                  | 55         | 59         | 50         | 51         | 56         | 0.5%         |
| Ticket Printing Costs                 | 8          | 9          | 7          | 8          | 9          | 3.8%         |
| Advertising and promotion             | 8          | 10         | 11         | 11         | 12         | 9.9%         |
| On-line professional services         | 8          | 8          | 7          | 8          | 8          | -0.4%        |
| ITVM lease and courier services       | 4          | 4          | 4          | 3          | 3          | -9.4%        |
| Other Operating Expenses              | 17         | 20         | 21         | 19         | 18         | 1.4%         |
| <b>Total Operating Expenses</b>       | <b>578</b> | <b>613</b> | <b>555</b> | <b>557</b> | <b>600</b> | <b>1.0%</b>  |
| % of Revenue                          | 73%        | 74%        | 76%        | 75%        | 76%        |              |
| <b>Operating Income</b>               | <b>211</b> | <b>210</b> | <b>178</b> | <b>183</b> | <b>191</b> | <b>-2.5%</b> |
| % Profit Margin                       | 26.8%      | 25.5%      | 24.3%      | 24.8%      | 24.2%      |              |
| <b>Net Income</b>                     | <b>216</b> | <b>217</b> | <b>179</b> | <b>190</b> | <b>188</b> | <b>-3.4%</b> |
| % Profit Margin                       | 27.4%      | 26.4%      | 24.4%      | 25.6%      | 23.8%      |              |

There are 177 full-time employees currently working for the Lottery, the majority of whom focus on sales and marketing activities.

The Lottery has long enjoyed exceptional brand-name recognition throughout the State. However, the Lottery’s per capita sales are below the average for US lotteries.

Since its incorporation in 1989, the Lottery has contributed over \$2.9 billion to the Build Indiana Fund. Lottery revenue contributions currently account for approximately 30% of the State’s annual contribution to the Build Indiana Fund. In addition, the Lottery is also contributing to Police Officers’ and Firefighters’ Pension and Disability Fund and Teacher’s Retirement Fund.

## 2.2. Game Product Descriptions

The Lottery sells both instant games (scratch cards and pull-tabs) and on-line games (traditional number matching games where player tickets are produced on a terminal connected to a central computer). The sales split between these two major product categories was 66% instant and 34% on-line in FY2011. The Lottery does not currently sell products to customers over the internet.

## 2.3. Highlights of the Vendor Opportunity

While the Lottery has enjoyed many years of growth in both revenue and net income, the Lottery is confident that a Vendor will be able to accelerate the trajectory of all parts of the Lottery's business.

It is expected that potential Vendors will have their own distinct perspectives on revenue growth opportunities for the Lottery. However, it is anticipated that specific areas of consideration may include (but would not be limited to):

1. Reconfiguring the current retail and distribution network, potentially increasing its scope and reach;
2. Optimizing commission structure for retailers and other distributors;
3. Optimizing the gaming experience within the legal parameters of the United States and the State of Indiana;
4. Enhancing marketing activities;
5. Marketing the Lottery to new, infrequent and lapsed players to increase the breadth of its customer base
6. Implementing new technology platforms to enable more effective and efficient operations; and
7. Making improvements to the supply-chain.

### **3. Submission Requirements & Procedures**

#### **3.1. Submission Requirements**

This RFEI is open to all Interested Parties. At this time there will be no restriction on the number of Interested Parties that may pursue the Integrated Services Agreement, however the Commission may at any stage limit participation by Interested Parties. Consortia of interested parties are permitted, and consortia that include participants that bring relevant skills but have not previously participated in management of lotteries are encouraged.

Interested Parties that anticipate responding to this RFEI must indicate their intention as soon as possible by providing contact information via email to the representative of the Transaction Advisor listed below:

William Harsh  
Oliver Wyman  
111 Monument Circle, Suite 4300  
Indianapolis, IN 46204  
hoosierlottery@oliverwyman.com

All questions or requests for information regarding this RFEI should only be directed to the representative of the Transaction Advisor listed above.

Interested Parties **MUST NOT** contact any officials or related parties of the Lottery, the Indiana Finance Authority, the State of Indiana, or advisors of these entities with regard to this opportunity, except for the representative of the Transaction Advisor. Interested Parties are advised that unauthorized contacts to officials or related parties of the State of Indiana or the Lottery may result in elimination of an Interested Party from the RFEI and/or RFI processes.

#### **3.2. Format and Required Information for Submission**

All RFEI responses should follow the format outlined below:

##### **1) Interested Party Information**

- a. Identification and description of the Interested Party.
- b. If the Interested Party is organized as a consortium or similar entity, please identify each member and provide a description of each member. If a

governance agreement for the consortium has been agreed to, please provide a copy of that agreement. Otherwise, please provide an indicative description of the role and proportional financial interest of each consortium member. This description should identify the party with controlling interest and the identity of each member expected to have more than a five percent interest in the consortium. Interested Parties may have the right to add or delete consortium members prior to the submission of a formal proposal. In such instances, notification of changes should promptly be submitted to the representative of the Transaction Advisor.

- c. Key personnel. Please identify the key personnel of the Interested Party. If the Interested Party is organized as a consortium, please identify the key personnel for each member of the consortium.
- d. Contact person. Please provide the name, title, address, telephone number and e-mail address for a single person who is authorized to communicate on behalf of the Interested Party. The contact person is to be the SOLE point of contact between the Interested Party and the representative of the Transaction Advisor.
- e. Advisors. Please identify any individuals or firms that are expected to advise the Interested Party during the RFEI or subsequent RFI process.

The total submission should not exceed 10 pages.

## **4. Submission Instructions and Next Steps**

### **4.1. Submission Instructions**

Submission of the information identified in Section 3.2 of this RFEI may be submitted in Adobe PDF format to the Transaction Advisor at [hoosierlottery@oliverwyman.com](mailto:hoosierlottery@oliverwyman.com). One executed copy of the Non-Disclosure Agreement should be delivered to the representative of the Transaction Advisor at the address shown below. Upon receipt of the executed Non-Disclosure Agreement, the Transaction Advisor will provide the Interest Party with a password to the electronic data room.

William Harsh  
Oliver Wyman  
111 Monument Circle, Suite 4300  
Indianapolis, IN 46204

Receipt of each submission will be acknowledged to the Contact Person by e-mail. At that time, the Contact Person also will receive via e-mail a schedule of meetings and key dates, an invitation to schedule a meeting with the Transaction Advisor, and, in due course, a preliminary / discussion draft of the Integrated Services Agreement.

Interested Parties are advised that meetings with the Transaction Advisor are anticipated to be scheduled the week of June 4, 2012. Interested Parties are further advised that opportunities to provide input concerning the Integrated Services Agreement, which will require expedited responses, may occur during the month of June.



## 5. Confidential Information

Interested Parties are advised that materials contained in their responses are subject to the Indiana Public Records Act, IC 5-14-3 *et seq.* including after the execution of a related Integrated Services Agreement, may be viewed and/or copied by any member of the public, including news agencies and competitors. Interested Parties claiming a statutory exception to the foregoing statutes must indicate on their proposal that confidential materials are included and specify which statutory exception provision applies.

The Commission reserves the right to make determinations of confidentiality. If the Commission does not agree with the information designated confidential under one of the disclosure exceptions to the foregoing statutes, it may either reject the information or discuss its interpretation of the allowable exceptions with an Interested Party. If agreement can be reached, the information-proposal will be considered. If agreement cannot be reached, the Commission will remove any proposal from consideration and return the proposal to the Interested Party. The Commission will not determine compensation information in proposals to be confidential information.

Thank you.